COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Southern Union Company	)))	D.T.E. 03-46

POST-HEARING COMMENTS OF SOUTHERN UNION COMPANY

Submitted by:

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I. INTRODUCTION

On April 29, 2003, Southern Union Company ("Southern Union" or the "Company") filed a petition with the Department of Telecommunications and Energy (the "Department") for approval and authorization, pursuant to G.L. c. 164, §§ 11 and 14, to issue and distribute up to 4.5 million shares of common stock for the purpose of effecting a stock dividend to the Company's equity shareholders in 2003. The Company anticipates the issuance and distribution of the stock dividend to take place on or about June 30, 2003, in accordance with a vote by the Company's Board of Directors.

As discussed herein, the record in this proceeding shows that the Company has met the Department's two-part standard under G.L. c. 164, §§ 14 and 16 for the approval and authorization of a common stock issuance in that (1) the issuance is reasonably necessary to accomplish a legitimate purpose in meeting the Company's service obligations and (2) the Company has met the net-plant test. Accordingly, the Department should approve the Company's request to issue up to 4.5 million shares of common stock for the purpose of effecting a stock dividend to the Company's equity shareholders in 2003.

II. PROCEDURAL HISTORY

On May 28, 2003, the Department conducted a public and evidentiary hearing at its offices. At the evidentiary hearing, the Company presented one witness: Richard N. Marshall, Treasurer and Director of Investor Relations at Southern Union, who testified in support of the Company's request for authorization to issue up to 4.5 million shares of common stock in 2003.

In addition to the sworn testimony presented at the hearing, the evidentiary record consists of approximately 37 documentary exhibits, including the initial filing and the Company's responses to information and record requests. This brief is filed in accordance with the schedule established by the Hearing Officer.

III. DESCRIPTION OF THE PROPOSED STOCK ISSUANCE

A. Issuance of Common Stock

In this filing, Southern Union seeks authorization under G.L. c. 164, §§ 11 and 14 to issue and distribute up to 4.5 million shares of common stock for the purpose of effecting a stock dividend in 2003 (Exh. SU-1, at 3). Based on approximately 58,681,000 shares of common stock outstanding as of March 31, 2003, the issuance of up to 2.93 million shares would constitute a 5 percent common-stock dividend to shareholders (Exh. SU-1, at 4; Exh. SU-2 [Revised]).[1] In addition, the Company is planning a public offering of up to 30.0 million shares of common stock by June 30, 2003, which would require the issuance of an additional 1.5 million shares to effect the stock dividend. The issuance of the common stock is scheduled

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1 In 1994, the Company initiated its policy to distribute a 5 percent stock dividend to shareholders based on the number of outstanding shares of common stock as of a designated record date (Exh. SU-1 at 4; Exh. DTE 1-4; Exh. DTE 1-9).

to occur prior to the record date, in accordance with the authority granted to the Company by the Department in Southern Union Company, D.T.E. 03-3 (2003) (Exh. SU-1, at 4; Exh. DTE 1-3; Tr. at 36).

Southern Union initiated its stock dividend policy in 1994 following a corporate reorganization and has issued a stock dividend in each of the past nine years (Exh. SU-1, at 7; Tr. at 46). Generally, the Board of Directors has declared the dividend in June of each year as a percentage of outstanding shares of stock (Exh. SU-1, at 5; Exh. DTE 1-4; Tr. at 30-31). In declaring the dividend, the Board also sets a record and payment date and authorizes the issuance of shares to accomplish the stock dividend (id.). The stock dividend is announced to shareholders on the declaration date and is paid to all holders of Southern Union stock as of the record date, which is generally set ten days after the declaration date (id.). The payment date generally follows the record date by 10-14 days (id.).

The Company has in place a Stock Dividend Sale Plan (the "Sale Plan"), which provides eligible owners of the Company's common stock the opportunity to convert shares that are received as a dividend into cash (Exh. SU-1, at 9-10). Under this plan, shareholders may elect, at a point prior to the record date, to sell shares that are issued to them as a dividend through the Sale Plan (id.). There are no costs to the shareholders associated with this election (id.). The Sale Plan is administered by a Plan Broker, who aggregates the dividend shares offered for sale and sells the shares on the open market (id.). Shareholders participating in the Sale Plan receive payment for their shares based on the average price obtained for the aggregated shares over a period of two to four weeks (id. at 10). However, the record shows that the vast majority of the Company's shareholders do not participate in the Sale Plan (id.). In

2002, for example, only 1,828 shares were sold through the Sale Plan as compared to approximately 2.6 million shares issued by the Company (id.).

The distribution of dividend shares is made to existing shareholders as of the record date on a pro rata basis, so that the percentage of ownership held by each shareholder is unchanged by the issuance (id. at 10). The issuance of the additional shares does not change the total of the common stockholders' equity section of the balance sheet (id.; See Exh. SU-3 [Revised]). Accordingly, the total value of the Company owned by existing shareholders is not affected by the stock dividend, which for the Department's purposes, is similar to the effect of a stock split (Exh. SU-1, at 10; Tr. at 13).

As discussed below, the record shows that the Company's proposal meets the requirements of the Department's two-pronged test for the approval of stock issuances, and therefore, the Company's petition should be granted subject to certification of the Board of Director's vote authorizing the issuance of stock for the purpose of effecting a stock dividend.

B. Capital Structure of the Company

As of March 31, 2003, the Company's consolidated balance sheet reflects plant in service totaling $1,787,434,000 (excluding Construction Work in Progress of $20,702,000), less accumulated depreciation of $630,654,000 (Exh. SU-2 [Revised]). Therefore, including gas inventories of 24,936,000, the total net plant in service as of March 31, 2003 was $1,202,418 (Exh. SU-2 [Revised]). The Company's long-term debt and capital lease obligations as of March 31, 2003 totaled approximately 1,182,217,000 (including preferred stock issued by a subsidiary trust of the Company), resulting in a total capitalization of $1,960,584,000 (id.). As discussed below, Southern Union's net-utility plant calculation as of

March 31, 2003 (under Department precedent) will be in excess of total capitalization by $196,940,000 following the proposed issuance of the stock dividend and completion of the Company's purchase of Southern Union Panhandle Corp.[2]

IV. STANDARD OF REVIEW

G.L. c. 164, § 11 requires Department approval as a condition for issuance of stock for the purpose of scrip or stock dividends. The Department has determined that the standard of review to be applied when investigating the appropriateness of the issuance of stock for the purposes of a stock dividend will be the same standard used for financing petitions made by companies under G.L. c. 164, § 14. Southern Union Company, D.T.E. 01-52 (2001). Applying this principle, the Department determined that petitions filed pursuant to G.L. c. 164, § 11 would be approved, if the proposed issuance satisfies the Department's requirements pursuant to G.L. c. 164, §§ 14 and 16. Specifically, for the Department to approve the issuance of stock, bonds, coupon notes or other types of long-term indebtedness by an electric or gas company, the Department must determine that the proposed issuance satisfies two requirements. First, the Department must assess whether the proposed issuance is reasonably necessary to accomplish some legitimate purpose in meeting a company's service obligations, pursuant to G.L. c. 164, § 14. Boston Edison Company, D.T.E. 00-62, at 2 (2000); Fitchburg Gas & Electric Light Company v. Department of Public Utilities, 395 Mass. 836, 842 (1985)

[2] On February 19, 2003, the Department approved the Company's proposed investment of up to $662.3 million in Southern Union Panhandle Corp. ("Southern Union Panhandle"), a Delaware corporation that will acquire the interstate pipeline assets of Panhandle Eastern Pipe Line Company. Southern Union Company, D.T.E. 03-3 (2003); See also Tr. at 29-30. The Company anticipates closing on the transaction no later than June 30, 2003.

("Fitchburg II"), citing Fitchburg Gas & Electric Light Company v. Department of Public Utilities, 394 Mass. 671, 678 (1985) ("Fitchburg I"). Second, the Department must determine whether the Company has met the net plant test. Colonial Gas Company, D.P.U. 84-96 (1984).

The Supreme Judicial Court has found that, for the purposes of G.L. c. 164, § 14, "reasonably necessary" means "reasonably necessary for the accomplishment of some purpose having to do with the obligations of the company to the public and its ability to carry out those obligations with the greatest possible efficiency." Fitchburg II at 836, citing Lowell Gas Light Company v. Department of Public Utilities, 319 Mass. 46, 52 (1946). In cases where no issue exists about the reasonableness of management decisions regarding the requested financing, the Department limits its section 14 review to the facial reasonableness of the purpose to which the proceeds of the proposed issuance will be put. Canal Electric Company, et al., D.P.U. 84-152, at 20 (1984); see, e.g., Colonial Gas Company, D.P.U. 90-50, at 6 (1990). Regarding the net plant test, a company is required to present evidence that its net utility plant (original cost of capitalizable plant, less accumulated depreciation) equals or exceeds its total capitalization (the sum of its long-term debt and its preferred and common stock outstanding) and will continue to do so following the proposed issuance. Colonial Gas Company, D.P.U. 84-96, at 5 (1984).

V. THE COMPANY'S PROPOSAL MEETS THE DEPARTMENT'S STANDARD OF REVIEW UNDER G.L. c. 164, §§ 11, 14 and 16.

As set forth above, the Company has the burden in this proceeding to demonstrate that the common-stock issuance: (1) is reasonably necessary to accomplish a legitimate purpose in meeting a company's service obligations, pursuant to G.L. c. 164, §14; and (2) that the Company's net utility plant equals or exceeds its total capitalization (as determined by application of the Department's net-plant test) and will continue to do so following the proposed issuance, pursuant to G.L. c. 164, § 16. See New England Power Company, D.T.E. 00-53, at 10; Boston Edison Company, D.T.E. 00-62, at 9-10. In this proceeding, the Company has satisfied this burden, and therefore, the Department should authorize and approve the Company's request to issue up to 4.5 million shares of common stock to distribute as a dividend to the Company's equity shareholders in 2003.

A. The Company Has Demonstrated That the Issuance Is Reasonably Necessary to Accomplish a Legitimate Utility Purpose

The record shows that the issuance and distribution of up to 4.5 million shares of common stock as a dividend to the Company's equity shareholders in 2003 is in the public interest because it will: (1) provide the Company with a cost-effective means of attracting, acquiring and maintaining equity capital for the funding of capitalizable additions, extensions, and improvements to its utility plant and property; and (2) increase the liquidity and marketability of the Company's stock (Exh. SU-1, at 5-8; Exh. DTE 1-5; Exh. DTE 1-11; Tr. at 7, 32-33).

The issuance of shares of common stock of the Company for the purposes of distributing a stock dividend to shareholders will achieve both of these objectives in a manner similar to the dividend-reinvestment plans and stock splits, which have been approved by the Department in the past. For example, the Department has approved a variety of dividend-reinvestment plans for most, if not all, of the gas and electric utilities operating in the Commonwealth. Under a dividend-reinvestment plan, a company's shareholders may elect to have their cash dividends automatically reinvested in additional shares of common stock, which are specifically issued by the company for sale through the plan. Utilities have adopted these plans because they provide a utility with "a means to provide a continuous infusion of new equity capital into the company in a cost-effective fashion." Colonial Gas Company, D.P.U./D.T.E. 97-83, at 2 (1997). Thus, in approving the issuance of stock necessary to administer these plans, the Department has found that the issuance serves a legitimate utility purpose because the proceeds from the sale of shares through the plan are available to fund additions to utility plant and to retire short-term debt incurred for the same purpose. See e.g., Colonial Gas Company, D.P.U. 91-130, at 4 (1991); Bay State Gas Company, D.P.U. 91-170, at 6 (1991); Boston Edison Company, D.P.U. 94-150, at 6 (1994); Essex Gas Company, D.P.U. 96-121, at 5 (1997); The Berkshire Gas Company, D.T.E. 98-61/87, at 29-33 (1998).

The Company's purpose in issuing shares to effect the stock dividend is no different from the underlying purpose of the dividend-reinvestment plans approved in the past by the Department, i.e., because the Company is not paying out retained earnings to shareholders as a cash dividend, the cash generated from these earnings is available for reinvestment in utility property, plant and equipment. However, the distribution of a stock dividend achieves the objective of a dividend-reinvestment plan in a more cost-effective manner for the shareholder, because the shareholder is able to increase his or her investment in the Company without incurring the tax liability that is incurred when a cash dividend is received (Exh. SU-1 at 9; Exh. DTE 1-12). With the stock dividend, the shareholder incurs no tax liability until the share is sold at a future date, which may reduce the tax liability associated with the dividend for the shareholder (id.).

Moreover, in the past, the Department has approved stock splits for a number of utilities, which are designed to increase the liquidity and marketability of a company's stock. The Department has found that the increased marketability of a company's stock will lead to increased investment in the utility, thereby facilitating future financing at a lower cost to the benefit of the utility's customers. See, e.g., Fall River Gas Company, D.P.U. 87-160/87-193, at 3-5 (1987); Fall River Gas Company, D.P.U. 93-147/93-172, at 7-8; Colonial Gas Company, D.P.U. 92 106, at 6-7 (1992). A key component of the Department's approval of stock splits has been that: (1) the issuance of additional shares of common stock does not result in a change in the aggregate value of the utility's common stock; and (2) the utility is able to satisfy the net plant test. Id.

Similarly, in this case, the record shows that an important objective of the stock issuance is to maintain the marketability and liquidity of the Company's common stock (Exh. SU-1 at 7-8). The Company has issued stock dividends for a number of years and the Company's shareholders desire and expect the payment of a stock dividend (id.; Tr. at 16-17). The Company's policy of issuing a stock dividend is disclosed and discussed in all major financial reports of the Company and a change in this policy is likely to have the effect of diminishing the value of the Company's equity in the eyes of its shareholders (id.). As a result, the marketability of the Company's shares is linked to the Company's ability to maintain its stock-dividend policy. In addition, the gradual and predictable increase in the number of shares has the effect of enhancing the liquidity of the Company's stock (id.).

Also, the record shows that the market expects the Company (and other LDCs) to have a reasonable level of common equity in its capital structure (Exh. SU-1 at 6-8). The issuance of stock for a dividend distribution allows the Company to use the cash generated by earnings to improve and expand its utility operations, which reduces the level of financing that would otherwise be required by the Company (Exh. SU-1 at 7-8; Tr. at 7, 32-33). The Department has required the Company to take steps to improve its debt-to-equity ratio. See Southern Union Company, D.T.E. 03-3 (2003). The Company's distribution of the stock dividend would enable it to use retained earnings to deleverage and improve the equity capitalization ratio without incurring additional costs associated with an equity issuance to raise capital (e.g., brokers' commissions and regulatory fees) (Exh. SU-1 at 7; Exh. DTE 1-14). Although the stock dividend does not raise equity capital for the Company, the stock dividend works to improve the Company's cash flow because earnings are retained rather than being paid out in the form of a cash dividend (Exh. DTE 1-11; Exh. DTE 1-14). This cash is used to fund capital improvements and to reduce debt (id.). Without the cash flow that is made possible through the retention of earnings, the Company would need to turn to external sources (whether debt or equity) to fund capital expenditures (id.). Therefore, the issuance of the stock dividend allows the Company to mitigate the need to raise equity or debt capital in the marketplace (id.).

Moreover, the record shows that the issuance of the stock, unlike a cash dividend, provides the shareholder with a return on investment realized exclusively through the growth in the underlying value of the shares held by the investor (Exh. DTE 1-18). As a result, Southern Union has a strong incentive to increase earnings by system expansion and cost-reduction initiatives in order to ensure that there is growth in the value of the Company (id.; Exh. DTE 1-5). The record establishes that the Company's investors, rating agencies and lenders recognize this fact by providing the Company with more favorable debt interest terms (Exh. DTE 1-16).

From an investment rating perspective, the Company is considered to be a "low business risk" natural gas distribution company with investment-grade ratings from Moody's (Baa3), Standard & Poor's (BBB) and Fitch Ratings (BBB) (Exh. SU-1 at 8; Tr. at 7-8).

Accordingly, the issuance of up to 4.5 million shares of common stock for the purpose of distributing a dividend to the Company's equity shareholders provides the Company with a cost-effective means of attracting, acquiring and maintaining equity capital for the funding of capitalizable additions, extensions, and improvements to its utility plant and property, and therefore, should be approved by the Department.

Lastly, the record shows that the issuance of additional shares has no effect on the per-share par value of the Company's stock or on the total value of the shareholders' equity in the Company (Exh. SU-1 at 7; Exh. SU-2 [Revised]). The per-share par value does not change because retained earnings reflected on the Company's books at the time of the dividend are first applied to increase equity capital at a level equal to the par value of the stock issuance, with the remaining balance of retained earnings (up to the value of the dividend) being transferred to paid-in surplus (Exh. DTE 1-30). In addition, the Company has demonstrated that following the issuance of up to 4.5 million shares of common stock, the Company's net utility plant will exceed its total capitalization, consistent with Department precedent (Exh. SU-3 [Revised]).

In its decision approving the Company's 2002 stock issuance, the Department found that issuing stock for the purposes of acquiring and maintaining equity and increasing the liquidity and marketability of a company's stock is a "legitimate utility purpose" as contemplated by G.L. c. 164, § 14. Southern Union Company, D.T.E. 02-27, at 10 (2002). See also Southern

Union Company, D.T.E. 03-3, at 18-19 (2003). Accordingly, the issuance of stock to effect the dividend payment meets the first prong of the Department's two-part standard.

B. The Company Has Demonstrated That Its Net Utility Plant Will Exceed Its Total Capitalization Following the Stock Issuance.

The record in this proceeding indicates that following the issuance of up to 4.5 million shares of common stock necessary to effect the stock dividend in 2003, the Company will have net-utility plant in excess of total capitalization of approximately $196,940,000 (Exh. SU-3 [Revised]). The record also shows that, although the issuance of the stock dividend has the effect of reducing the per-share book value of the Company when the dividend is issued, there is no reduction in the aggregate book value of the stock to the Company's shareholders because the shares are issued to all stockholders on a pro rata basis so that the relative percentage of ownership held by each shareholder is unchanged (Exh. SU-3 [Revised]). This outcome is similar to a stock split, i.e., the total capitalization of the Company remains unchanged as a result of the stock issuance (Exh. SU-1 at 18-19; Exh. DTE 1-30). The only difference in this case is that for purposes of the net plant test, an adjustment is made post-issuance to increase Common Stockholders' Equity by the amount of retained earnings on the Company's books (up to the value of the dividend) (Exh. SU-1 at 19). Since the Company has demonstrated that its net utility plant is in excess of its capitalization following the issuance, there is no impairment to the Company's capital stock as a result of the reclassification of retained earnings to Common Stockholders' Equity (Exh. SU-1 at 19; Exh. DTE 1-30). In fact, the reinvestment of net earnings in the Company's operations will increase the level of net utility property, plant and equipment on an annualized basis (Exh. DTE 1-30).

As discussed above, the Company has demonstrated (consistent with the requirements of the Department's net-plant test) that its net utility plant equals or exceeds its total capitalization and will continue to do so following the proposed issuance, pursuant to G.L. c. 164, § 16. See New England Power Company, D.T.E. 00-53, at 10 (2000); Boston Edison Company, D.T.E. 00-62, at 9-10 (2000). Therefore, the Department should authorize and approve the Company's request to issue up to 4.5 million shares of common stock as a dividend distribution to the Company's equity shareholders in 2003.

As part of its demonstrate that it meets the Department's net-plant test, the Company has made a number of adjustments to its consolidated balance sheet. First, the Company removed from Property, Plant and Equipment, the net property, plant and equipment relating to unregulated business operations. Specifically, the Company has reduced its net plant-in-service by \$4,558,000 (plant-in-service of approximately \$16,760,000, less accumulated depreciation of approximately \$12,202,000), to account for unregulated operations that are shown on a consolidated basis on the Company's balance sheet (Exh. SU-1 at 14; Exh. SU-2 [Revised]). See Southern Union Company, D.T.E. 03-3, at 19 (2003).

The unregulated property, plant and equipment removed from the net-utility plant-in-service is supported by a combination of debt and equity, but having been incorporated over time into the Company's overall operations, cannot be directly attributed to a particular source of capital (Exh. SU-1 at 14; Exh. SU-2 [Revised]). Accordingly, the Company has reduced its total capitalization in the amount of \$4,558,000 by reducing outstanding debt and equity (both common and preferred) in the same ratio that those categories of capital have to the Company's total capitalization (id.). This adjustment is consistent with the Department's treatment in previous cases presented by Southern Union and with the Department's precedent, which requires a utility to demonstrate that its net-utility plant-in-service will be equal to or exceed its total capitalization following the issuance of the security for which it is seeking authorization by the Department. See Southern Union Company, D.T.E. 03-3 (2003); Southern Union Company, D.T.E. 02-27 (2002); Southern Union Company, D.T.E. 01-52 (2001); Southern Union Company, D.T.E. 01-32 (2001).

Second, consistent with Department precedent, the Company adjusted the net-plant-test calculation to exclude the net goodwill totaling $642,921,000 from the Company's overall capitalization (net goodwill excluding goodwill associated with the sale of the Company's Texas operations in January 2003) (Exh. SU-1 at 15**;** Exh. SU-2 [Revised]; Southern Union Company, D.T.E. 03-3, at 20 (2003)). Over the past several years, the Company completed a number of acquisitions of regulated natural gas companies. The net goodwill of $642,921,000 reflects the excess of the purchase prices of the acquired companies over the book value of the assets acquired (Exh. SU-1 at 15-16). Thus, the Company reduced its total capitalization by $642,921,000 to reflect the removal of the net goodwill from the net-plant-test calculation (Exh. SU-1 at 15-16; Exh. SU-2 [Revised]). This is consistent with the Department's treatment of additional purchase costs in previous cases presented by Southern Union and with prior Department precedent. See e.g., Southern Union Company, D.T.E. 03-3, at 20 (2003); New England Power Company, D.T.E. 00-53, at 8-9 (2000).

The net goodwill is supported by a combination of debt and equity, but having been incorporated over time into the Company's overall operations, cannot be directly attributed to a particular source of capital (Exh. SU-1 at 16). Accordingly, the Company has reduced its total capitalization in the amount of $642,921,000 by reducing outstanding debt and equity in the same ratio that those categories of capital have to the Company's total capitalization (id.; Exh. SU-2 [Revised]).

Third, the Company has excluded Retained Earnings of approximately $86,823,000 from its total capitalization (Exh. SU-1 at 16; Exh. SU-2 [Revised]). Also, the Company has made pro-forma adjustments to its consolidated balance sheet to remove Construction Work In Progress of $20,702,000, and to include natural gas inventories held by the Company's regulated utility divisions (Exh. SU-1 at 16; Exh. SU-2 [Revised]; See Southern Union Company, D.T.E. 03-3, at 19 (2003).

The Company added to "Common Stockholders' Equity" the acquisition of the equity interest in Southern Union Panhandle, or $624,800,000 (Exh. SU-1 at 16-17; Exh. SU-2 [Revised]). Following the closing of the Southern Union Panhandle acquisition, the balance sheet of Southern Union Panhandle will be consolidated with Southern Union's and the net property, plant and equipment associated with the Southern Union Panhandle assets will be reflected on Southern Union's balance sheet. Accordingly, the Company has increased "Common Stockholders' Equity" by $624,800,000 and increased its net plant in service by $1,640,000,000 to account for the addition of the Southern Union Panhandle facilities, plus $27,000,000 for gas inventories (Exh. SU-2 [Revised]). The Company has also included long-term debt of $1,167,000,000, which Southern Union Panhandle will assume as part of the transaction (id.).

The Company has made certain adjustments to depict the capitalization of the Company following the closing of the Southern Union Panhandle acquisition and the consolidation of

Southern Union Panhandle's balance sheet with that of Southern Union. Specifically, the Company has reduced "Common Stockholders' Equity" to account for the $420 million in cash invested in Southern Union Panhandle using the Texas proceeds (Exh. SU-1 at 17; Exh. SU-2 [Revised]). This adjustment is made because the $420 million cash realized from the sale of the Texas operations and invested in Southern Union Panhandle represents "Common Stockholders' Equity" for Southern Union Panhandle (on a stand-alone basis), but does not for Southern Union on a consolidated basis (id.). Therefore, the $420 million cash investment must be removed from Common Stockholders' Equity on Southern Union's consolidated balance sheet (id.; See Southern Union Company, D.T.E. 03-3, at 19 (2003).

Next, the Company removed from "Common Stockholders' Equity" the amount of $164,300,000, which represents funding for the investment that will be accomplished using short-term bridging arrangements, and therefore, does not constitute Common Stockholders Equity (Exh. SU-1 at 18; Exh. SU-2 [Revised]).

In addition, the Company adjusted for the issuance of up to $300 million in common equity (Exh. SU-2 [Revised]). Since the proceeds will be used to reduce long-term debt, the Company increased Common Stockholders' Equity and reduced Long-Term Debt by $300 million (Exh. SU-1, at 18**;** Exh. SU-2 [Revised]). Lastly, the Company removed construction work in progress of $48 million associated with the Panhandle Eastern assets (id.).

Thus, as demonstrated by the record, the Company's net-plant in service exceeds capitalization by approximately $196,940,000, following the issuance of the stock dividend.

VI. CONCLUSION

The record in this proceeding shows: (1) that the Company's issuance of up to 4.5 million shares of common stock to provide a dividend distribution to the Company's equity shareholders in 2003 is reasonably necessary to meet the Company's service obligations, pursuant to G.L. c. 164, § § 11 and 14; and (2) that the Company's net-utility plant equals or exceeds it total capitalization (as calculated consistently with the Department's precedent on the net-plant test) and will continue to do so following the proposed issuance, pursuant to G.L. c. 164, § 16. Therefore, for the reasons stated above, the Department should:

VOTE: That the issuance and distribution of up to 4.5 million shares of common stock for the purpose of effecting a stock dividend in 2003 is reasonably necessary for the purposes for which such issuance and sale has been authorized, pursuant to G.L. c. 164, § 14.

VOTE: That the issuance and distribution of up to 4.5 million shares of common stock for the purpose of effecting a stock dividend in 2003, is in accordance with G.L. c. 164, § 16, in that the fair structural value of the Company's property, plant and equipment and the fair value of the gas inventories held by the Company, will exceed its outstanding stock and long-term debt.

ORDER: That the issuance and distribution of up to 4.5 million shares of common stock for the purpose of effecting a stock dividend in 2003, is approved and authorized, contingent upon the Company's certification of a vote by the Board of Directors to authorize the stock issuance; and

ORDER: Such other and further approvals as may be necessary or appropriate.

Respectfully submitted,

SOUTHERN UNION COMPANY

By its attorneys,

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Dated: June 3, 2003